

NORTH KENT CONNECT

AUDITED FINANCIAL STATEMENTS

Year Ended June 30, 2022

*Goodlander, Swett & Rybicki
Certified Public Accountants*

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INDEPENDENT AUDITORS' REPORT

Board of Directors
North Kent Connect
Rockford, MI

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of North Kent Connect (NKC), a not-for-profit organization, which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expense and cash flows for the year ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of North Kent Connect as of June 30, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of North Kent Connect and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about North Kent Connect's ability to continue as a going concern for the next year.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of North Kent Connect's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about North Kent Connect's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Goodlander, Swett & Rybicki
Certified Public Accountants

November 28, 2022

NORTH KENT CONNECT

STATEMENT OF FINANCIAL POSITION

June 30, 2022

ASSETS

Cash and cash equivalents	\$ 1,651,540
Contributions receivable, net	151,378
Undistributed gift card inventory	24,032
Prepaid expenses	20,929
Inventory	267,708
Construction in progress	7,331
Land	230,000
Building	3,130,863
Building Improvements	79,194
Ground Improvements	75,921
Sign	27,473
Vehicle	88,109
Furniture and equipment	180,059
Less Accumulated Depreciation	<u>(626,494)</u>

TOTAL ASSETS	<u>\$ 5,308,043</u>
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LIABILITIES AND NET ASSETS

Accrued liabilities	\$ 42,074
Unearned revenue	<u>12,500</u>

TOTAL LIABILITIES	<u>54,574</u>
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Net Assets:

Without donor restrictions	4,343,423
With donor restrictions	<u>910,046</u>

TOTAL NET ASSETS	<u>5,253,469</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,308,043</u>
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See Notes to Financial Statements

NORTH KENT CONNECT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2022

	Without donor restrictions	With donor restrictions	Total
Revenues, gains, and other support:			
Contributions of cash and grants	\$ 751,853	\$ 193,430	\$ 945,283
Contributions of non-financial assets	518,823	-	518,823
Special events net of expenses of \$22,356	81,974	-	81,974
Senior meals program	15,480	-	15,480
Investment income	5,765	-	5,765
Sale of merchandise	370,014	-	370,014
Gain on sale on asset	22,499	-	22,499
Room rental	6,900	-	6,900
Recycling income	10,661	-	10,661
Net assets released from restrictions:			
Satisfaction of donor restrictions	252,414	(252,414)	-
Total operating support and revenue	2,036,383	(58,984)	1,977,399
Expenses			
Programs	1,717,430	-	1,717,430
Management and general	134,668	-	134,668
Fund Raising	135,669	-	135,669
Total expenses	1,987,767	-	1,987,767
Increase (decrease) in net assets	48,616	(58,984)	(10,368)
Net assets at beginning of year	4,294,807	969,030	5,263,837
Net assets at end of year	\$ 4,343,423	\$ 910,046	\$ 5,253,469

See Notes to Financial Statements.

NORTH KENT CONNECT

Statement of Functional Expenses

Year Ended June 30, 2022

	Program	Management and General	Fund Raising	Total Expenses
Salaries	\$ 481,590	\$ 84,604	\$ 84,604	\$ 650,798
Employee benefits	71,232	12,513	12,513	96,258
Payroll taxes	38,953	6,843	6,843	52,639
TOTAL PERSONNEL EXPENSES	591,775	103,960	103,960	799,695
Assistance to individuals	421,913	-	-	421,913
Cost of sales	369,982	-	-	369,982
Senior meals direct expense	4,940	-	-	4,940
Occupancy	90,145	483	3,992	94,620
Accounting fees	5,600	700	700	7,000
Professional fees	45,850	22,107	5,920	73,877
Equipment rental	-	-	10,405	10,405
Telephone	1,846	39	58	1,943
Postage	-	-	1,035	1,035
Computer and technology	10,062	1,184	3,551	14,797
Travel	1,861	227	379	2,467
Seminars	336	118	-	454
Depreciation expense	127,339	1,299	1,299	129,937
Office expense	5,113	1,021	3,708	9,842
Insurance	17,963	2,306	2,306	22,575
Marketing expense	10,295	639	14,349	25,283
Other expenses	12,410	585	6,363	19,358
Total Expenses by Function	\$ 1,717,430	\$ 134,668	\$ 158,025	\$ 2,010,123
Less fundraising expenses included with revenues on the statement of activities	-	-	(22,356)	(22,356)
Total Expenses included in the expense section on the statement of activities	\$ 1,717,430	\$ 134,668	\$ 135,669	\$ 1,987,767

See Notes to Financial Statements.

NORTH KENT CONNECT

STATEMENT OF CASH FLOWS

Year Ended June 30, 2022

OPERATING ACTIVITIES

Decrease in net assets	\$ (10,368)
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Adjustments to reconcile change in net assets to
cash provided (used) by operating activities:

Depreciation	129,938
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Decrease (increase) in assets:

Contributions receivable	7,301
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Undistributed gift card inventory	17,345
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Loss on disposal of asset	1,501
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Prepaid expenses	(10,754)
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Inventory	29,997
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(Decrease) increase in liabilities:

Accrued liabilities	(168,449)
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Unearned revenue	<u>12,500</u>
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NET CASH PROVIDED BY OPERATING ACTIVITIES	9,011
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INVESTING ACTIVITIES

Purchase of fixed assets	<u>(53,805)</u>
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NET CASH USED BY INVESTING ACTIVITIES	(53,805)
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NET DECREASE IN CASH	(44,794)
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Cash and cash equivalents at beginning of year	<u>1,696,334</u>
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CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,651,540</u>
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Supplementary data:	
Interest paid	<u>\$ -0-</u>

See Notes to Financial Statements.

NORTH KENT CONNECT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE A – NATURE OF ACTIVITIES

North Kent Connect (NKC) is a Christian organization committed to improving the lives of all people in northern Kent County by providing access to basic needs and promoting economic independence.

North Kent Connect operates a thrift store that has been open since August 2017. The thrift store is available to all clients and is open to the public. All items for sale in the store have been donated and are for sale at significantly discounted prices. The store is part of NKC's program activities. All profits are used in its mission to provide the necessities for their clients and for programming that helps promote economic independence.

With its new 12,400 square foot wing completed in 2021, NKC expanded its onsite partners which now include Family Promise (families experiencing homelessness), West Michigan Works (job readiness), Arbor Circle (mental health), and the Kent County Health Department WIC Clinic (nutrition and breastfeeding information for mothers). A comprehensive resource center serving half the county, NKC provides a healthy food pantry, case management, educational classes, tax preparation, and more to individuals, seniors, and families.

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

Adoption of New Accounting Pronouncement

For the year ended June 30, 2022, North Kent Connect adopted Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. Adoption of this standard did not have a significant impact on the financial statements, with the exception of increased disclosure.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting, recording revenue when earned rather than when received, and recording expenses when incurred rather than when paid.

Cash and cash equivalents

Cash and cash equivalents consist of cash held in checking, savings, money market and certificates of deposit accounts.

NORTH KENT CONNECT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents (Continued)

Currently, NKC's cash balances exceed the insured limit. The risk is mitigated by actively managing existing accounts in accordance with current Federal Deposit Insurance Corporation (FDIC) limits and by maintaining deposits in high quality financial institutions. The NKC Finance Committee has drafted an Investment Policy in order to apportion its cash into more than one financial institution.

Promises to give

We record unconditional promises to give expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset.

In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. We determine the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable.

There is no amount of uncollectable promises to give written off for the year ended June 30, 2022.

Property and equipment

We record property and equipment additions over \$1,000 at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from three to thirty years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

We review the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2022.

NORTH KENT CONNECT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net assets

Resources are classified for accounting and reporting purposes according to their nature and purposes as follows:

Net Assets Without Donor Restrictions - Includes all resources over which NKC's board of directors has discretionary control in carrying on the operations of NKC in accordance with the limitations of its charter and bylaws. All public support and revenue are considered to be available for unrestricted use unless specifically restricted by the donor.

Net Assets With Donor Restrictions – consist of net assets that are subject to donor imposed stipulations that may or will be met either by actions of NKC or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Revenue and revenue recognition

The Organization recognizes revenue following Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "ASC 606"), which supersedes most existing revenue recognition guidance and outlines a single comprehensive model for recognizing revenue as performance obligations, as defined in a contract with a customer as goods or services are transferred to the customer in exchange for consideration, are satisfied.

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Revenue for the retail store is recognized when the customer receives and pays for merchandise.

NKC sponsors fund-raising events in order to generate necessary operating funds. Income from special events is recognized as it is received and is recorded net of direct costs.

NORTH KENT CONNECT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services and in-kind contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

Contributed goods that are not food donations are recorded at fair value at the date of donation. NKC records donated professional services at the respective fair values of the services received.

Advertising costs

Advertising costs are expensed as incurred, and approximate \$25,283 for the year ended June 30, 2022.

Functional allocation of expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of NKC.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates.

NOTE C - LIQUIDITY AND AVAILABILITY

NKC receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. NKC manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

NORTH KENT CONNECT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

NOTE C - LIQUIDITY AND AVAILABILITY (CONTINUED)

As of June 30, 2022, the following tables show the total financial assets held by North Kent Connect and the amounts of those financial assets that could readily be made available within one year of the balance sheet date to meet general expenditures:

Financial assets:	<u>2022</u>
Cash and cash equivalents	\$ 1,651,540
Contributions receivable, net	<u>151,378</u>
Total financial assets	1,802,918
Less amounts not available to be used within one year:	
Contributions receivable due after one year, net	(56,210)
Less amounts with restrictions:	
Board designated-restricted cash	(306,583)
With donor restrictions-restricted cash	<u>(912,014)</u>
Total not available	<u>(1,218,597)</u>
Financial assets available to meet general expenditures over the next twelve months:	\$ 528,111
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NOTE D – TAX STATUS

NKC is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. NKC has adopted the provisions of FASB Codification 740, Accounting for Income Taxes. Management believes that no material uncertain tax positions exist. Therefore, no liability for unrecognized tax exposures has been recorded. With few exceptions, NKC is no longer subject to tax examinations before 2016.

NOTE E – FAIR VALUE MEASUREMENTS AND DISCLOSURES

NKC reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- *Level 1* - Quoted prices for identical assets or liabilities in active markets to which NKC has access at the measurement date.
- *Level 2* - Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.
- *Level 3* - Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

When available, NKC measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. The following methods and assumptions were used by NKC in estimating its fair value disclosures for financial instruments.

NORTH KENT CONNECT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

NOTE E – FAIR VALUE MEASUREMENTS AND DISCLOSURES (CONTINUED)

Cash and cash equivalents, receivables and payables: The carrying amounts reported in the Statement of Financial Position approximate fair value because of the short maturities of those instruments.

NOTE F – CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are estimated to be collected as follows at June 30, 2022:

1 year or less	\$ 95,168
2 to 5 years	<u>58,178</u>
	153,346
Less discount to net present value at 3.5% discount rate	(<u>1,968</u>)
Total Contributions receivable, net	\$ 151,378 =====

NOTE G – INVENTORY

Inventory consists of donated clothing and household goods held for sale in NKC's thrift store. Clothing and household goods are recorded at the time of sale in the store at cost. For inventory still located in the warehouse and on the store floor, an average price per gaylord is used to estimate inventory. The average price per gaylord is determined by the counting of items in two gaylords. The assigned value is determined based on the sale price in the store. A physical inventory is conducted by the staff at year end and adjusted for sales in the store to reflect estimated inventory at June 30, 2022.

NOTE H – UNEARNED REVENUE

Unearned revenue represents revenue collected but not earned as of June 30, 2022. Unearned revenues arise when NKC receives resources before a service, activity, or event is performed for which the resources were received. In subsequent periods, when recognition criteria are met, the liability for unearned revenues is removed and revenues are recorded. There is \$12,500 of unearned revenue at June 30, 2022.

NORTH KENT CONNECT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

NOTE I – NET ASSETS

Net assets with donor restrictions were as follows for the year ended June 30, 2022:

Specified Purpose:	
Empowerment program	\$ 8,874
Personal care items	14,598
Repair & maintenance and emergency expense fund	37,388
DEI, Strategic Planning & Technology	6,000
Food market	9,788
Other client assistance (utilities, repairs, etc.)	47,350
Capital campaign	<u>786,048</u>
	<u>\$ 910,046</u>

Net assets without donor restrictions for the year ended June 30, 2022 are as follows:

Undesignated	\$ 4,036,840
Board designated-reserve	<u>306,583</u>
	<u>\$ 4,343,423</u>

NOTE J – RENTAL INCOME

North Kent Connect rents office space to four organizations. The first organization has been leasing since 2006 and is currently month to month with a lease agreement that does not require payment. The second organization has been leasing since 2017 with a current term lease through February 2024 and monthly payments of \$300. The third organization has been leasing since July 2021 and is currently month to month with a lease agreement that requires \$100 monthly payments. The fourth organization has been leasing since January 2022 with a current term lease expiring in June 2023 with monthly payments of \$400. Total rental income is \$6,900 for the year ending June 30, 2022.

NOTE K – DONATED GOODS AND SERVICES

A substantial portion of the operations of North Kent Connect consists of receiving and disbursing donated goods and services to people of the community who are in need.

NORTH KENT CONNECT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

NOTE K – DONATED GOODS AND SERVICES (CONTINUED)

Donated goods and services received for the fiscal year ended June 30, 2022, included in the financial statements, are as follows:

Food	\$ 155,802
Clothing	181,594
Household items	158,389
Other goods and services	<u>23,038</u>
Total	<u>\$ 518,823</u>

Donated equipment for use at NKC is valued at estimated fair market values.

Clothing, furniture, and household goods are valued when sold in the thrift store or given to clients based on thrift store market analysis.

Food is valued at estimated fair market values. North Kent Connect logs and weighs all food received and assigns a fair value to the donation based on its weight. Donations are assigned a value based on the average price per pound. The fair market value of donated food is valued using \$1.67 per pound value according to the June 2016 Feeding America's Product Valuation Survey, as compiled by KPMG.

Other donated goods and services consist of mileage, professional services which include snow plowing, repair and maintenance, and technology services, and equipment. Donated professional services and equipment are reflected in the financial statements at their fair market value.

Volunteers donated approximately 6,886 hours during the year ending June 30, 2022, to NKC's program services; however, these donated services are not reflected in the financial statements since these services do not require specialized skills.

NOTE L – RISKS AND UNCERTAINTIES

As of June 30, 2022, the COVID-19 pandemic continues to present economic uncertainties which could impact the Organization. The potential financial impact and duration of impact is unknown at this time.

NOTE M – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 28, 2022, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

NORTH KENT CONNECT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

NOTE N – UPCOMING ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing essential information about leasing transactions. Under ASU 2016-02, lessees will be required to bring substantially all leases onto their balance sheets by recording a right-of-use asset and lease liability. Expense will be recognized on a straight-line basis for an operating lease. Recognition of expense for a finance lease will be similar to the current treatment of capital leases. The requirements of ASU 2016-02 are effective for North Kent Connect's fiscal year ending June 30, 2023. North Kent Connect is currently evaluating the impact of this pronouncement.